



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

March 10, 2006

Financial Audit Management Report

Joseph L. Blount, Chairman
Mississippi State Tax Commission
1577 Springridge Road
Raymond, Mississippi 39154

Dear Mr. Blount:

Enclosed for your review are the financial audit findings for the Mississippi State Tax Commission for the Fiscal Year 2005. In these findings, the Auditor's Office recommends the Mississippi State Tax Commission:

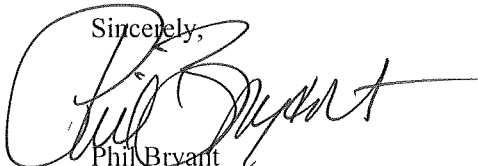
1. Strengthen procedures over processing individual income tax refunds;
2. Implement controls over the keypunch of journal entries;
3. Follow policies and procedures concerning delinquent sales tax accounts; and
4. Strengthen controls over expenditures.

Please review the recommendations and submit a plan to implement them by March 29, 2006. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi State Tax Commission to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi State Tax Commission throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi State Tax Commission for the year ended June 30, 2005. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Judy Bounds, Jessica Short, Kim McCrory, Phillisa Conner, Mike McCollough, Oliver Strange and Rebecca Wilson.

The fieldwork for audit procedures and tests was completed on November 17, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi State Tax Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide an opinion on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the department's ability to initiate, record, process, summarize and report financial data consistent with assertions of management in the financial statements. These matters are noted under the heading **REPORTABLE CONDITIONS**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described in this letter is a material weakness.

In addition, we noted certain immaterial weaknesses involving the internal control over financial reporting that require the attention of management. These matters are noted under the heading **IMMATERIAL WEAKNESSES IN INTERNAL CONTROL**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi State Tax Commission are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We are pleased to report the results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

REPORTABLE CONDITIONS

Procedures over Processing Individual Income Tax Refunds Should Be Strengthened

Finding:

During testwork on refunds at the Mississippi State Tax Commission, we performed a computer analysis to identify any refunds issued to the same social security number for the same amount during the same calendar year. This analysis identified 161 potential duplicate refunds. To test for erroneous duplicate refunds, 25 refunds were selected for review. We noted five instances in which a tax refund check was issued twice and one instance in which a tax refund check was issued three times to the taxpayer and appropriate follow-up procedures were not performed by the agency. Four of the six taxpayers who received duplicate/triplicate refund checks totaling \$2,794 cashed both/all checks received. The other two taxpayers who received duplicate checks totaling \$2,256 have only cashed one of the checks received, but have not returned the other check or notified the agency of the receipt of two refunds.

When similar problems were noted during our fiscal year 2004 audit, agency personnel indicated that duplicate refunds were to be examined each year. They stated a report was to be requested in January which would list all taxpayers who received more than one refund for the same tax year during the previous calendar year. However, when we inquired about this report for January 2005, we were told the report had not been run.

Good internal controls dictate proper procedures be in place to ensure accuracy in processing tax refunds. Failure to have procedures in place for examining duplicate refunds could result in loss of tax revenue to the state as well as permit errors or fraud to occur without being detected in a timely manner.

Recommendation:

We recommend the Mississippi State Tax Commission follow policies and procedures established to detect and recover erroneous individual income tax refunds. The duplicate refund report for the 2004 calendar year should be run and taxpayer accounts examined to determine if any funds have been erroneously paid to taxpayers. Appropriate action should be taken by the agency to recover any funds erroneously paid to taxpayers.

Controls over Key punch of Journal Entries Should Be Implemented

Finding:

During testwork on sales tax journal entries to taxpayer accounts at the Mississippi State Tax Commission, we determined there were 53 journal entries exceeding \$100,000 which totaled \$14,099,393. We selected 25 journal entries totaling \$10,423,210, or 74 percent, to test. We noted four instances out of 25 test items, or 16 percent, in which the journal entry posted incorrectly in the computer system due to a keypunch error. Details on the errors are as follows:

- In three of the entries which were made to correct the tax period, the credit side of the journal entry was debited and the debit side of the journal entry was credited. The total amount of the three entries was \$2,511,199.

- One entry which should have been keypunched as \$35,660 was input as \$356,620.

Good internal controls should ensure the proper posting of journal entries to a taxpayer's account. Discussion with agency personnel revealed there were no computer edits to ensure that errors of the type noted are identified in post audit. While the agency's policy is that journal entries which exceed a certain dollar amount are to be reviewed by supervisory personnel in the sales tax division, there did not appear to be review procedures in place in data processing to ensure that journal entries were input to the computer system correctly. Because we performed our testwork on journal entries which were keypunched with amounts greater than \$100,000, we do not think the problems noted would materially affect the agency's ability to process and record tax returns. Failure to ensure journal entries are correctly input to the computer could affect the integrity of the taxpayer account information available.

Recommendation:

We recommend the Mississippi State Tax Commission implement controls over data processing of journal entries to ensure the proper posting of journal entries to a taxpayer's account.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROL

Policies and Procedures Concerning Delinquent Sales Tax Accounts Should Be Followed

Finding:

During testwork at the Mississippi State Tax Commission on sales tax delinquencies, we noted two instances out of 20 tested, or ten percent, in which agency personnel did not perform appropriate follow-up procedures for sales tax delinquencies. The two instances noted were out-of-state accounts for which a lien/warrant was not recorded. According to the agency's delinquency policies and procedures, assessment letters must be sent out within 30 days of the return due date plus a ten day grace period and liens/warrants must be recorded by the time the delinquency is 60 days past due. Failure to follow delinquency policies and procedures could result in delay or failure to collect delinquent taxes.

Recommendation:

We recommend the Mississippi State Tax Commission follow delinquency policies and procedures to collect taxes from delinquent sales tax accounts. Agency personnel should ensure that liens/warrants are recorded for delinquent accounts 60 days past due.

Controls over Expenditures Should Be Strengthened

Finding:

The Mississippi State Tax Commission – Alcoholic Beverage Control Division receives written price quotes from vendors for items to be held in bailment inventory at the agency. The price quote should be signed by a vendor official authorizing the stated price and its effective date. We tested 40 expenditures for alcoholic beverages purchased for resale and noted the following:

- Ten instances in which the price quote was not signed by the vendor. Upon the auditor's request, the agency was able to subsequently obtain signed price quotes from six of the vendors.

- One instance in which the price quote could not be located. Upon the auditor's request, the agency was able to subsequently obtain the price quote from the vendor.

Good internal controls require written authorization of price quotes by the vendor and that all price quotes be maintained on file at the agency. Failure to maintain properly authorized price quotes could result in errors in prices charged for the resale of the alcoholic beverages.

Recommendation:

We recommend the Mississippi State Tax Commission – Alcoholic Beverage Control Division strengthen controls over expenditures by ensuring price quotes for alcoholic beverages purchased for resale are properly authorized by the vendor. We further recommend the agency ensure copies of all authorized price quotes are maintained on file.